Digitalisation of Bank Credit: India's Move Towards Frictionless Credit

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Achieving equitable credit allocation to micro and small enterprises, as well as to underprivileged individuals, has been a primary goal envisioned by policymakers since India's independence. Successive government administrations have addressed this issue by developing and implementing appropriate policies. Directing credit priority to sectors such as agriculture, small and medium-sized enterprises (SMEs), traditional occupations, affordable housing and students from low-income economic backgrounds is a prominent aspect of these policies. The government has introduced an institutional framework to establish specialised financial institutions for agriculture and small industries, alongside innovative products such as credit cards for farmers. However, these supply-side measures have accomplished little in minimising the information asymmetries associated with lending processes, such as selecting a suitable borrower, framing the appropriate credit-risk assessment and tracking loan repayments. Thus, the Reserve Bank of India (RBI) has been focusing on developing Technological architecture to address the information asymmetries of credit markets.

A remarkable milestone was the incorporation of the Credit Information Bureau (India) Ltd. (CIBIL), which collects and maintains credit histories of individuals and small businesses. These credit histories are then used to create credit scores that are helpful for banks and other financial intermediaries, thereby enhancing the credit supply. Over time, CIBIL has established itself as a large and trustworthy credit-information company. In 2005, the Indian government introduced a statutory framework to regulate the Credit Information Companies (Regulation) Act, 2005. In addition to CIBIL, three other credit-information companies are actively working as financial intermediaries, providing quality credit data that gives potential borrowers access to free full credit reports (FFCRs). Credit-information companies are also displaying lists of defaulters, helping banks remove high-risk borrowers from their pools of potential customers.

In 2014, the Indian government, under newly elected Prime Minister Narendra Modi, took a radical step towards financial inclusion with the Pradhan Mantri Jan Dhan Yojana (PMJDY, translated as the Prime Minister's Public Finance Scheme). Banks were asked to allow bank-account openings within certain basic requirements. As of July 15, 2025, banks provided bank-account facilities to 55.9 million Jan Dhan accounts, 56 percent of which belonged to women, with more than ₹264 billion worth of deposits[1]—which speaks volumes about the scheme's impacts. This scheme also provides credit facilities.

The digitalisation of national identities through the Aadhaar unique identity number has also made bank-account openings quick and easy.

In 2016, Unified Payments Interface (UPI) was launched. UPI is a payment architecture that facilitates seamless person-to-person money transfers and merchant transactions through mobile phones. It emerged as a single platform with multiple banking features. With this innovation, the Indian market witnessed an instant-payment revolution through mobile phones; currently, 7,000 transactions per second are processed on average by UPI.

Another monumental step in the digitalisation of the expanding credit market was the launch of the Open Credit Enablement Network (OCEN) in 2020. The OCEN is a set of open-source APIs (application programming interfaces) that serve as a digital layer, connecting various participants, such as lenders, loan service providers (LSPs) and borrowers, and catering to the credit needs of individuals and micro, small and medium-sized enterprises (MSMEs). The OCEN is streamlining the lending process, making it more efficient, accessible and inclusive, particularly for underserved segments.

The trinity of JAM (Jan Dhan, Aadhaar and mobile) has brought about magnanimous changes to the financial-services landscape and created a vast database. The challenge now is establishing a reliable data-sharing system. This gap has been addressed by a new system of account aggregators (AA). AAs facilitate secure and consent-based data exchange between financial-information providers and financial-information users. The AA system enables more accurate credit assessments and potentially facilitates the delivery of customised financial products.

Integrating various databases and providing further credit-process smoothing are top challenges addressed by the Unified Lending Interface (ULI). The ULI is a technology-based initiative aimed at making frictionless credit available to every Indian, leading to wider financial inclusion and improved last-mile loan-service delivery.

The ULI is designed to integrate technology, data and policy into one seamless platform. The digital platform combines the rich, trusted and high-value datasets available from the government. Banks that leverage ULI data can make informed decisions, leading to inclusive and expedited lending, especially to underserved borrowers.

The ULI platform will facilitate the seamless flow of information and data required by lenders for loan processing, including financial parameters, transaction data, land records of small farmers, credit information from bureaus, data from account aggregators, utility-bill payments, GST (Goods and Services Tax) records and input from digital identity authorities. Thus, small borrowers' credit appraisals should be smoother and faster. The ULI is designed around standardised application programming interfaces to ensure access to information from multiple diverse sources. It features a plug-and-play methodology, making it easy to

use. The platform aims to streamline the complexities and reduce the turnaround times of loan processing.

Other features of the ULI include:

Standardisation: The ULI has a standardised protocol for data exchange, enabling different financial entities to interact with each other.

Interoperability: With a common interface, the ULI brings different banks, fintechs (financial technology firms) and other lending institutions onto a single platform. This streamlines operations, enhancing the user experience.

Data security: The platform ensures secure data sharing with full protection of borrowers' and lenders' data. Borrowers grant lenders permission to access their financial and non-financial records, expediting loan processing.

Efficiency: It automates the lending-process steps, such as credit assessment, documentation and disbursement.

Regulatory compliance: It maintains compliance with regulatory standards, thus mitigating the risks associated with non-compliance by banks and financial intermediaries.

Embedded finance: The ULI platform can be integrated into digital services that offer lending options within different ecosystems, such as e-commerce or fintech applications.

Cost efficiency: The Unified Lending Interface process is expected to lower transaction costs, loan-processing charges and information-acquiring outlays significantly for both lenders and borrowers by automating and standardising operations.

T. Rabi Sankar, the RBI's deputy governor, said that the "Unified Lending Interface (ULI) has facilitated the disbursal of over 1.4 million loans amounting to Rs 65,000 crore till April this year."[2]

In summary, the ULI, which is the RBI's digital public infrastructure for the lending ecosystem, provides banks and NBFCs (nonbank financial companies) with access to key financial and nonfinancial data of borrowers, making credit decisions more efficient. It helps lenders to improve credit underwriting and disbursal while allowing consumers to choose from a wider range of loan offers. "ULI is a platform that has lenders on one side and the data that is required for these lenders to process loans on the other side. At present, more than 60 such data sources have been linked to this platform," the deputy governor said.

In the past, loans given to small farmers typically required about a month, if not longer, and involved multiple bank visits by the farmer before the application was fully processed. Through the ULI, the farmer could complete this end-to-end process in under 15 minutes.

While the ULI has only been conceptualised by the RBI, it is being designed and developed by the Reserve Bank Innovation Hub (RBIH). Besides the ULI, the RBIH is also developing another digital public infrastructure called MuleHunter, an artificial intelligence (AI)-driven engine trained on the databases of lenders' entire ecosystem to identify mule accounts.

The main challenges are, firstly, improving data quality. High-quality data should enhance credit histories, leading to more accurate credit underwriting. Technological applications should better track repayments and improve the franchise values of banks, such as trust, transparency and efficiency. Secondly, with technology facilitating easy credit flows, all individuals, regardless of their geographic location, should have access to credit. But the caution is that it should not lead to overindebtedness, and household survival should not depend on credit.

References

[1] Pradhan Mantri Jan Dhan Yojana (PMJDY): Progress Report.

[2] *Financial Express/*FE BFSI: "ULI facilitated over 1.4 million loans worth Rs 65K crore, says RBI," Ayanti Bera, April 23, 2025.

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